

HOUSING MARKET OUTLOOK

Kingston CMA



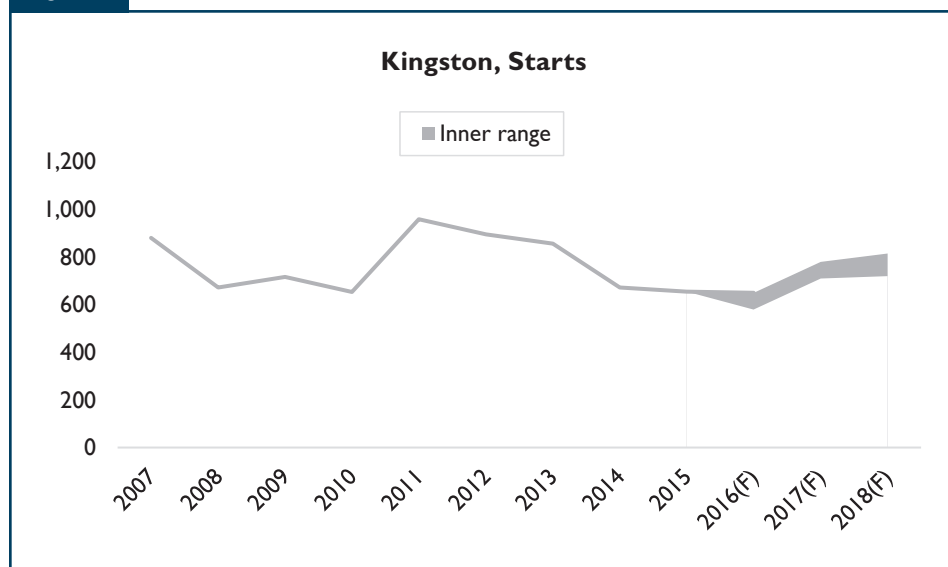
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2016

Highlights¹

- Housing starts will rebound in 2017 and 2018 due mainly to an increase in apartment starts.
- MLS® sales activity in the Kingston CMA will rise modestly in 2017 and 2018.
- MLS® prices will grow modestly in 2017 and 2018, while the resale market will remain balanced.
- The purpose-built apartment vacancy rate will move down as demand exceeds supply.

Figure 1



Source: CMHC; (F) = CMHC Forecast

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¹ The forecasts and historical data included in this document reflect information available as of September 30, 2016.

New Home Market

Kingston's total housing starts will finish the year at approximately the same level as last year and are anticipated to increase in 2017 and 2018. The key driver behind this growth in starts will be new apartment developments, as the city attempts to move towards greater intensification in the downtown core. Total starts posted a slow performance on a year to date basis at 240 as of August 2016 compared to 447 for the same period last year, mainly due to few apartment starts. Moving forward, supported by low interest rates and projected positive economic growth, total starts are expected to range between 710 and 780 units in 2017, and 720 and 815 units in 2018.

Last year saw single-detached starts reach their lowest level for the last two decades. Anticipate this downward trend to continue in both 2017 and 2018, bringing down their share of total activity to approximately 35 per cent each year. Single-detached housing starts are expected to range between 250 and 270 units in 2017, and 250 and 300 units in 2018. In contrast,

multiples² increased their share of 2015 activity mainly due to an increase in apartment starts. Over the forecast period, multiple starts activity is expected to range between 460 and 510 units in 2017, and 470 and 515 units in 2018. This increase on the multiples side over the forecast horizon will come solely from more apartment starts as townhome starts are anticipated to remain stable.

The trends towards greater intensification, student housing preferences and the aging population are the driving forces behind the expected increase in building activity for apartments. More apartments are expected to start construction in 2017 and 2018, primarily in the downtown core. The exact timing of these new projects remains uncertain. It remains to be seen if these projects will all commence at the same time or be phased into production over the next two or even three years. The starts of row and semi-detached homes is anticipated to remain limited as we move into 2017 and 2018 and builders focus on primarily supplying new apartments. This is more a consequence of the rising price of a new townhome, that is now making

these homes more challenging to sell as there is ample competition in existing housing market.

Resale Market

The resale market activity is expected to grow modestly in 2017 and 2018 relative to 2016 with existing home sales ranging between 3,250 and 3,380 units for 2017. In 2018, activity is expected to range between 3,150 and 3,500 units. Sales of existing homes posted a strong rebound on a year to date basis for 2016 moving the market well within a balanced territory. Low mortgage rates, a tighter resale market and growing incomes have enticed buyers to enter the market. For the remainder of the year expect more of the same as total sales will finish the year well above 2015 levels and continue their upward trajectory over the forecast horizon.

Single-detached homes continued to be the most sought after dwelling type in the resale market. As reported by the Kingston real estate board, in Q2-2016, single-detached existing home sales posted the strongest quarter since 2009 at 1,035 units from the total sales of 1,297. In Q2-2016, more homes were sold on a year over year basis in the plus \$375,000 range putting further upward pressure on the average price level. Lastly, anticipate more out of town buyers to enter the market as suggested by steadily rising numbers of net interprovincial migrants which reached the highest level of the past decade at 415.

The resale market moved well into a balanced territory during the second quarter of 2016 as a result of strong sales coupled with fewer new listings. On a year to date basis, fewer new listings were met by stronger sales moving the ratio at the highest level

Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of

economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

² Multiples include semi-detached, row and apartment units.

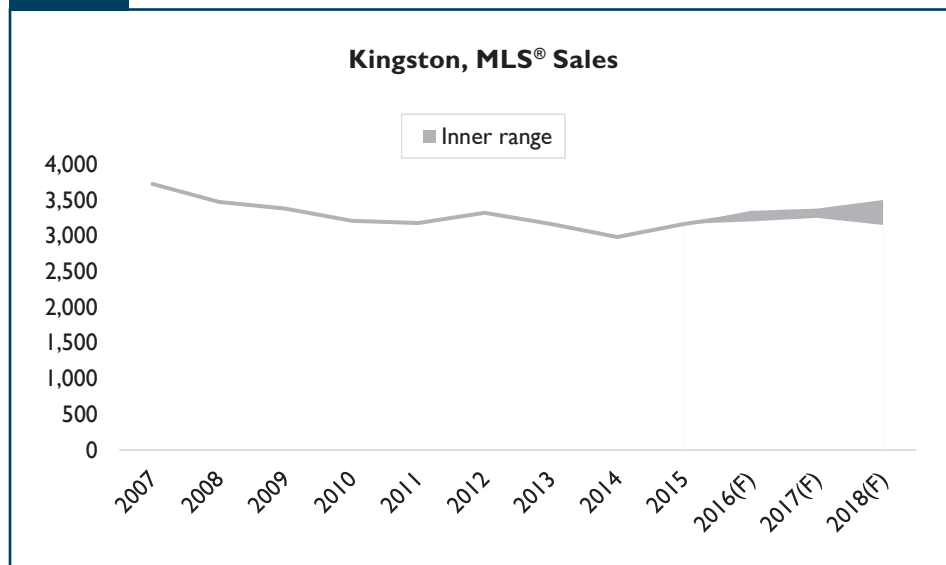
since 2012. As the resale market activity continues to remain balanced over the two year forecast period prices will grow modestly in 2017 and 2018, mostly driven by a continued rise in the new single-detached home prices. The average MLS® price is expected to range between \$298,300 and \$302,200 in 2017, and between \$302,700 and \$308,300 in 2018. Increases in employment and wages, low interest rates and market balance, coupled with a positive growth in prices will be supportive of housing sales at the aforementioned levels.

Affordability in Kingston has remained steady in recent years as prices and incomes have both grown at modest rates. Average earnings in Kingston are anticipated to continue to grow higher enabling the average household incomes to remain some of the highest compared to other major CMAs in Ontario. This is largely due to the higher incomes earned in the important public administration sector which supports affordability in the city.

Rental Market

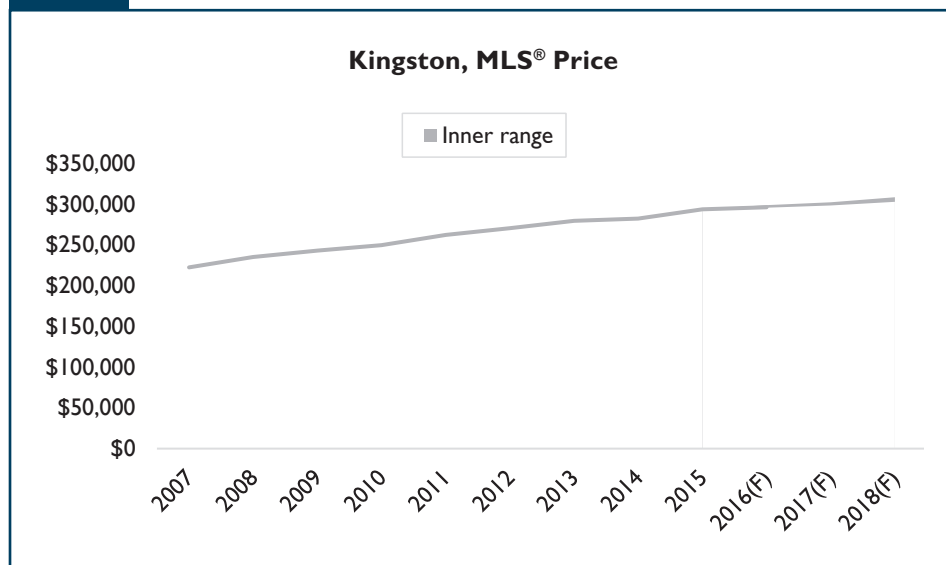
From July 1st 2015 to June 30th 2016, 232 newly completed purpose-built rental apartments were added to this year's Rental Market Survey. This number is above the ten year average of 190 units. Notwithstanding this above average increase in new units, the vacancy rate is anticipated to be pressured downward to 2.5 per cent in 2017 and will continue trending further down to 2.4 per cent in 2018 due to an expected improvement in net migration and the continued support of local student renting population, particularly in the core. Ample rental supply, particularly in the periphery, had pressured the vacancy rate up in 2015 to 2.8 per cent.

Figure 2



Source: CREA; (F) = CMHC Forecast

Figure 3



Source: CREA; (F) = CMHC Forecast

The demand for the purpose built student rentals appears to be strong, as market intelligence suggests these student rentals tend to have close to zero vacancy rates. These new units tend to be occupied by mostly students who move out of secondary rentals into these purpose built

rentals, thus pushing the vacancy rate lower. Most of these new units are condominiums apartment, and are not classified as purpose built rentals but will be in direct competition with the existing units. As far as the existing purpose built rentals are concerned, we anticipate the

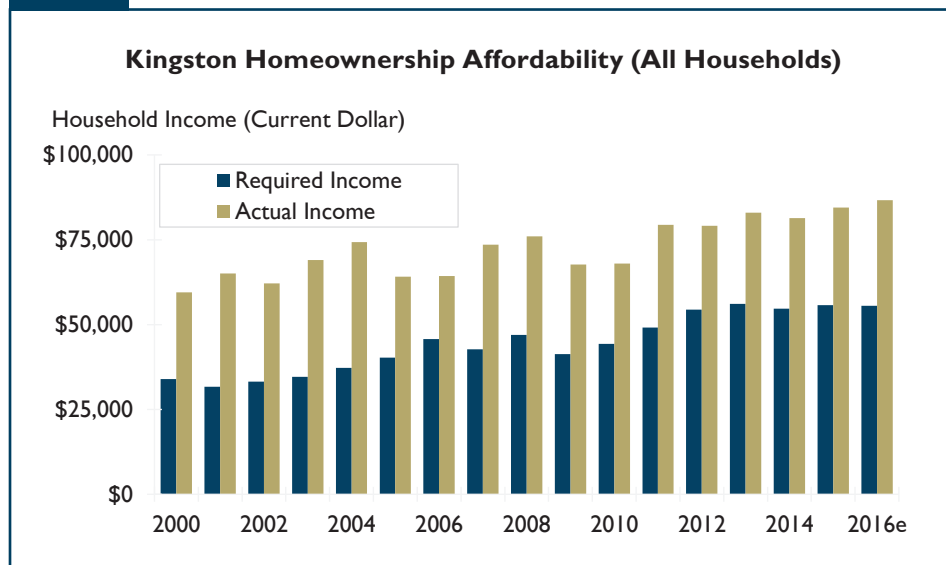
upgrading of many older purpose built apartment units which in order to compete effectively with this new supply coming on board will improve the quality of the supplied units in the market which will make them more attractive pushing the vacancy rate lower.

On the demand side so far in 2016, stronger employment of the 15-24 age group has supported rental demand. In addition, the aging of the population and the fact that Kingston remains a popular destination for seniors to retire will further support the rental demand going forward. While net migration rebounded in recent years, interprovincial migration reached the highest level of the past decade at 415 in 2015. Lastly, over the past three years, Queen's has seen the percentage of international students increase. As most international students tend to rent, this is further support from the demand side.

Economic Overview

Employment rebounded in 2015 and is expected to strengthen in 2017 and 2018 continuing the upward trend experienced so far in 2016 supported by multiple private and public sector initiatives. That being said, the majority of the employment gains in recent years were in part-time jobs rather than full time positions, and public administration positions reached its lowest level in almost 10 years this past July. The greater investments anticipated from the private sector call for more full time job creation over the forecast horizon, as certain small local manufacturing companies have expressed intent to hire more full time workers as well as certain logistics companies supported by the low value of the Canadian dollar which should boost exports.

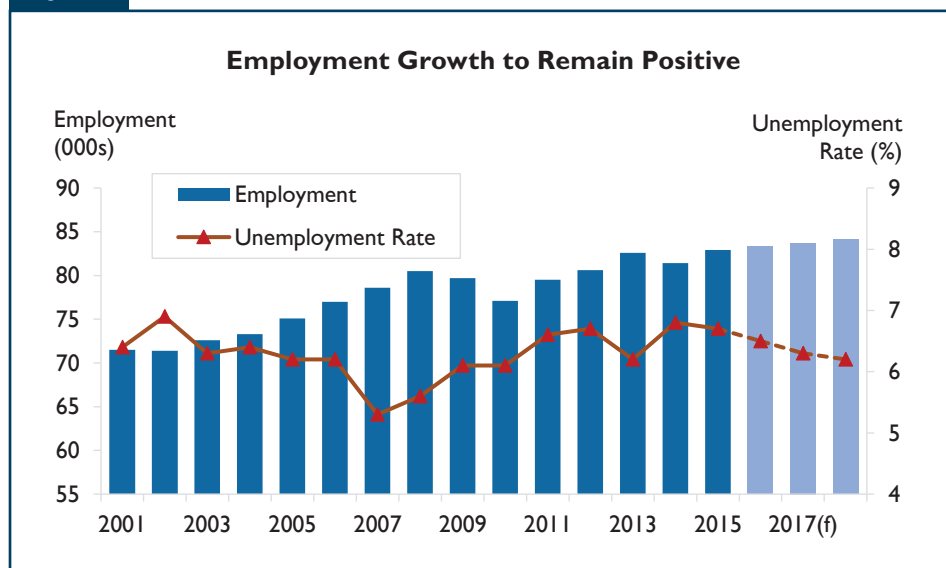
Figure 4



Source: CMHC, adapted from Statistics Canada, CREA, e = estimate

*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

Figure 5



Source: CMHC, adapted from Statistics Canada, Labour Force Survey; (F) = CMHC Forecast

Several public investments already under way and more recently announced, such as the JCB Bridge, the big dig in the downtown core and more discussion centered on the third crossing, are having an

immediate positive impact on the construction employment front as evidenced by the greater employment in construction. In addition, certain private sector investments in logistics, warehousing and transportation

have already positively impacted employment with more to follow as suggested by local market intelligence and local job advertisements.

Further, tourism strengthened a lot this year supported by the low Canadian dollar which promoted both tourists from south of the boarder to visit Kingston and at the same time enticed Ontarians to visit Kingston as evidenced by the close to zero vacancy rates for most hotels in Kingston for the majority of the summer. This positive publicity has also impacted the choice for more Canadians to relocate to Kingston as evidenced by the most recent positive interprovincial migration numbers.

As the economy is on stronger footing in 2017, the labour force is expected to grow at a stronger rate. Since employment in 2017 will grow at a higher rate than the growth in the labour force, the unemployment rate will decrease to 6.3 per cent and decrease further to 6.2 per cent in 2018. On a year to date basis, earnings are up by more than four per cent. Improvement in economic activity and greater demand for workers will push average weekly earnings up the following years in support of the housing market.

Mortgage rates are expected to rise modestly over the forecast horizon

Mortgage rates are expected to increase very modestly over the period 2016-2018. This is consistent with the expected pick-up over the horizon for inflation and real GDP growth by several forecasting institutions.

According to our base case scenario, the posted 5-year mortgage rate is expected to be within a 4.5 to 4.9 per cent range in 2016 and within a 4.4 to 5.2 range in 2017. For 2018, the posted 5-year mortgage rate should lie within a 4.5 to 5.7 per cent range.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

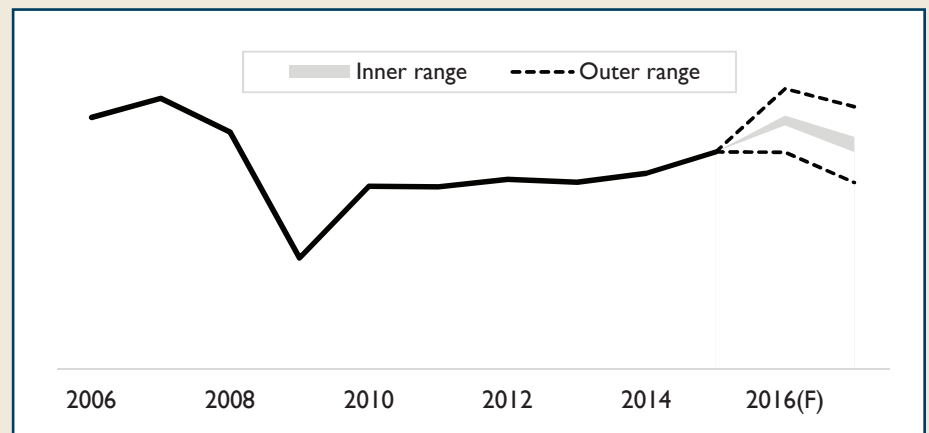
- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a

specific set of assumptions for the market conditions and underlying economic fundamentals.

- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of

historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates are expected to stay near current levels until the end of 2016, before rising modestly over the forecast horizon. This should contribute to a slight moderation in housing demand by the end of 2018.
Employment	Employment will grow modestly in both 2017 and 2018, supported by both public and private initiatives which will have a positive effect of housing starts activity.
Income	Increased demand for workers will result in stronger income growth in 2017 and 2018 supporting general housing demand conditions.
Resale Market	Resale market activity will strengthen slightly in 2017 on improved employment conditions positively impacting the housing market. This slight increase in sales may entice builders to supply more new homes to the market in 2017 and 2018.

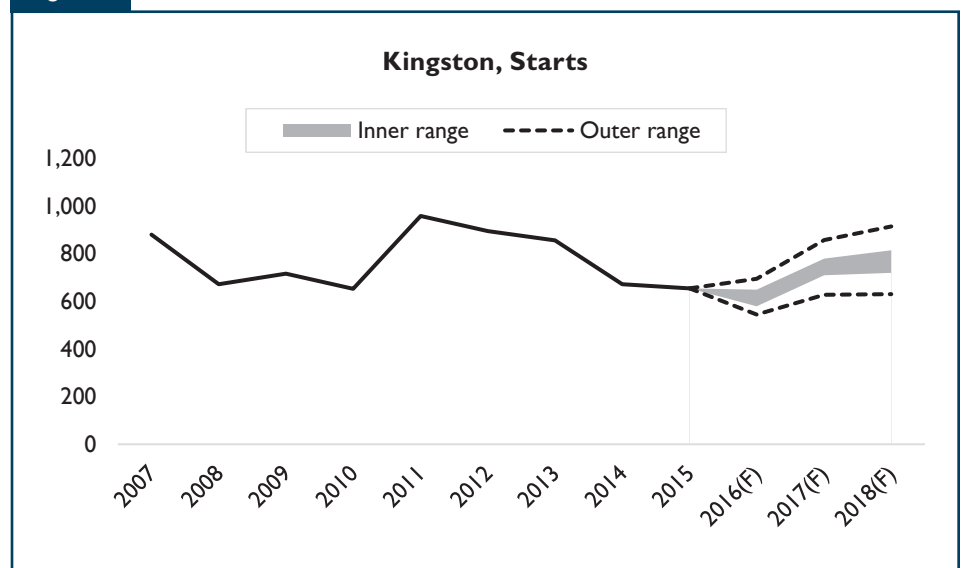
Forecast risks

The presence of uncertainty poses some risks to the Kingston economic and housing outlook. This can result in a wider range of possible outcomes versus our forecast.

Housing Starts

Certain apartment projects are pending final approval. Depending on the timing of final approval Kingston could see more than anticipated apartment starts pushing total starts to the upper end of the wide range for 2017 or 2018. On the other hand, some of these projects risk not getting final approval within the forecast horizon and may start at a later date, thus moving total starts closer to the lower end of the outer range.

Figure 6



Source: CMHC; (F) = CMHC Forecast

MLS® Sales

Weaker than expected employment and income growth could, in effect lead to much lower sales moving them toward the lower bound of the wider range particularly in 2018. A better than expected performance of the Ontario economy could spur higher than expected employment and income growth which would feed into stronger housing demand. This could push the sales forecast towards the upper bound of the wider range.

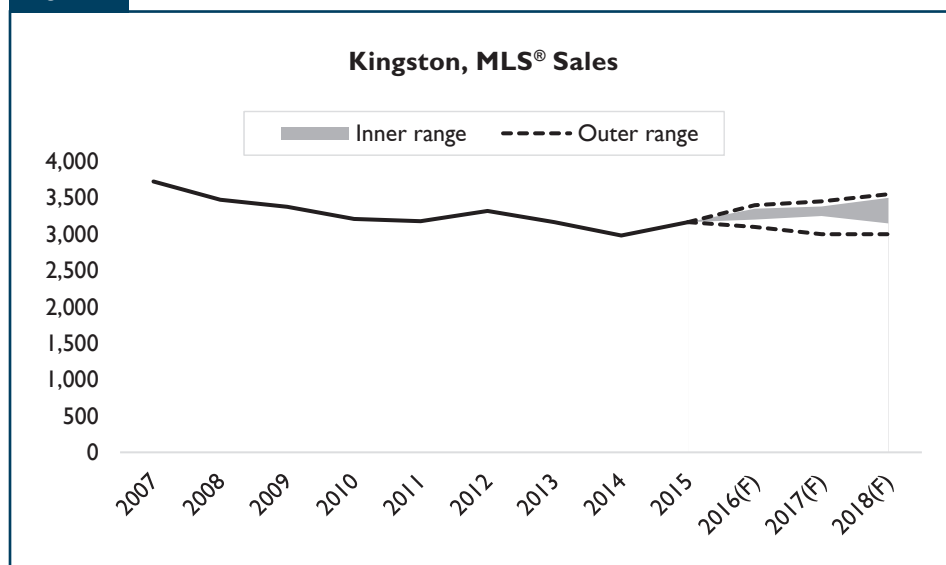
MLS® Average Price

Our assessment of the upside and downside risks for price growth remain balanced. Better than expected performance of the US economy may spill-over to the local market pushing house prices to the upper part of the outer range. Also, greater than anticipated positive interprovincial migration may put further upward pressure on prices as demand rises more than expected. The converse will be true if the local economy experiences a slower than anticipated economic and interprovincial growth rate, pushing prices to the lower part of the outer range.

The impact of mortgage regulation changes

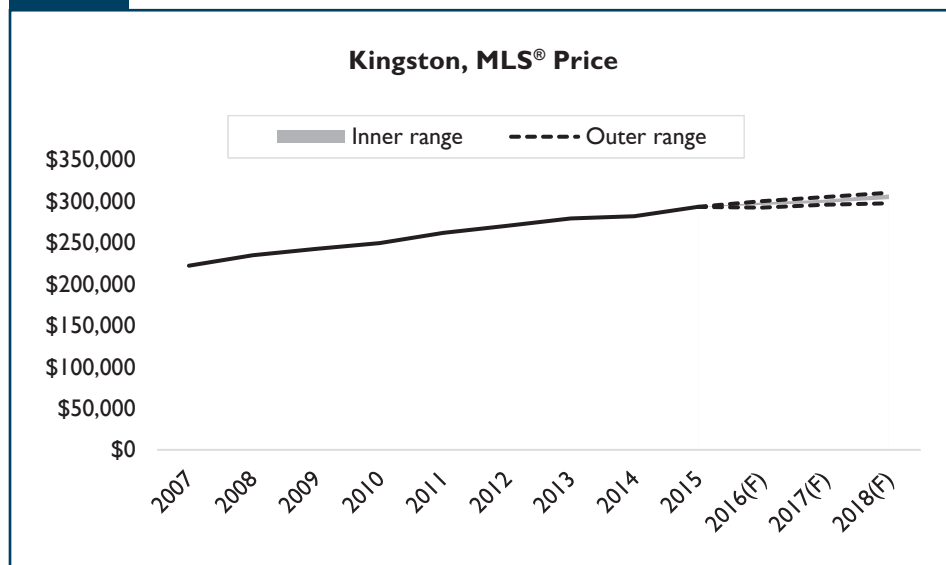
On October 3, the Government of Canada announced measures designed to support the health and stability of Canadian housing markets and housing finance system. The measures include new eligibility rules for high ratio insured mortgages (where the loan to value ratio is greater than 80%) and new eligibility criteria for low ratio insured loans (loan-to-value less than 80%) that previously only applied to high ratio mortgages. Under the new measures, all high ratio mortgages will now be “stress tested” to ensure borrowers can

Figure 7



Source: CREA; (F) = CMHC Forecast

Figure 8



Source: CREA; (F) = CMHC Forecast

afford their loan if interest rates rise. Borrowers will now have to meet higher debt servicing limits calculated using the greater of the contract rate and the Bank of Canada's 5 year posted rate. The latter is currently more than 2% higher than typical contract rates. This “stress test” approach has been applied since 2010 to variable rate mortgages and fixed rate mortgages of a term of less than 5 years. Applying this stress test to

loans with terms of five years and longer extends this test to all high-ratio insured mortgages.

As the policy just took effect, it is difficult to precisely evaluate the impacts on housing markets. In general, an increase in mortgage rates affects house prices, sales, and starts negatively. However, the stress test approach affects the size of the insured mortgage for which

the home borrower qualifies and it is not an increase in the mortgage rate itself. As a result, borrowers could adjust their purchase behaviour in several ways. For example, they could purchase homes that are less expensive, add more down payment, delay their purchase in order to save additional funds for down payment, or add a co-signor.

According to our analysis, from 5 to 10 per cent of all prospective home buyers could be affected during the first year of implementation, but the precise impact will vary depending on specific homebuyer circumstances and behaviours. Considering regional variations in drivers of housing activities, it is also likely that the impact of the announced

changes could be different across the country. Taking into account all possible scenarios, the impacts on house prices, sales, and starts are within the lower band of our outer forecasting range that is designed to capture unexpected economic and financial developments, as well as unforeseen regulatory changes at the local, provincial, and national levels.

Forecast Summary Kingston CMA Fall 2016									
	2013	2014	2015	2016(F)		2017(F)		2018(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	325	338	275	200	250	250	270	250	300
Multiples	531	334	380	380	400	460	510	470	515
Starts - Total	856	672	655	580	650	710	780	720	815
Resale Market									
MLS® Sales	3,165	2,982	3,166	3,200	3,350	3,250	3,380	3,150	3,500
MLS® Average Price(\$)	279,339	281,980	293,375	295,400	298,600	298,300	302,200	302,700	308,300
Economic Overview									
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.50	4.90	4.40	5.20	4.50	5.70

	2013	2014	2015	2016(F)	2017(F)	2018(F)
Rental Market						
October Vacancy Rate (%)	2.3	1.9	2.8	2.6	2.5	2.4
Two-bedroom Average Rent (October)(\$)	1,054	1,070	1,096	1,100	1,115	1,120
Economic Overview						
Population	167,147	168,509	169,934	171,100	172,100	173,200
Annual Employment Level	82,600	81,400	82,900	83,300	83,700	84,100

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 30th September 2016. (L)=Low end of Range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2016-2018).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October **Rental Market Survey** (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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- Housing Market Tables: Selected South Central Ontario Centres
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